

## Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 XMB-02 SOE-02 AID-05 CEA-01  
CIAE-00 COME-00 DODE-00 EB-08 DOE-11 H-01 INR-07  
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06  
OES-07 SP-02 SS-15 STR-05 TRSE-00 ACDA-12 PA-01  
PRS-01 /130 W

-----103789 100745Z /21

R 100710Z JAN 78  
FM AMEMBASSY SEOUL  
TO SECSTATE WASHDC 8596  
USDOC WASHDC  
INFO ERDA GERMANTOWN  
DOE ERDA WASHDC  
AMEMBASSY PARIS  
AMEMBASSY TOKYO

C O N F I D E N T I A L SEOUL 0176

TOKYO FOR W. HENoch

DEPARTMENT PASS TO EXIM BANK

E.O. 11652: GDS  
TAGS: BENC, MNUC, EFIN, FR, GW, KS  
SUBJECT: MAJOR PROJECT--KECO NUCLEAR PLANTS

REF: SEOUL 10454

1. WITH THE SECOND WEEK OF THE NEW YEAR, NEGOTIATIONS BETWEEN KOREA ELECTRIC COMPANY (KECO) AND PROSPECTIVE EQUIPMENT SUPPLIERS FOR KORI UNITS 3 AND 4 (NUCLEAR POWER PLANTS NUMBER FIVE AND SIX) HAVE SHIFTED INTO HIGH GEAR AND, IF OUR LOCAL COMMERCIAL CONTACTS ARE TO BE BELIEVED, MAY PRODUCE PRELIMINARY AGREEMENTS WITH COMPONENT SUPPLIERS BY THE END OF THE MONTH.

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2. THE STAGE FOR THIS LATEST FLURRY OF NEGOTIATING ACTIVITY WAS APPARENTLY SET BY A LATE DECEMBER KECO DECISION TO OPT FOR THE CONSTRUCTION OF THE TWIN 930 MW UNITS ON A COMPONENT BASIS RATHER THAN THE ALTERNATIVE TURN-KEY OR ISLAND APPROACH. KECO CLAIMS TO HAVE INFORMED THE THREE NUCLEAR ISLAND BIDDERS (FRAMATOME, KRAFTWERK

UNION AND WESTINGHOUSE--PSPD) THAT THEIR TURN-KEY PROPOSALS NO LONGER ENJOY ACTIVE CONSIDERATION. WHILE EMBASSY HAS NOT BEEN ABLE TO CONFIRM THE FRENCH AND GERMAN RECEIPT OF THESE LETTERS WE DO KNOW FOR CERTAIN THAT KECO HAS INVITED TWO U.S. COMPONENT APPROACH BIDDERS, WESTINGHOUSE (WATER REACTOR DIVISION) AND COMBUSTION ENGINEERING, TO PARTICIPATE IN A FINAL NEGOTIATING ROUND IN SEOUL OVER THE PERIOD 9-13 JAN. THE WESTINGHOUSE (WRD) AND CE PRESIDENTS HAVE ARRIVED IN SEOUL AND KECO HAS PROMISED TO COMPLETE ITS SELECTION PROCESS BY THE WEEK OF 16-20 JAN. AT THAT TIME A LETTER OF INTENT FOR NSSS COMPONENTS PRESUMABLY WOULD BE SIGNED.

3. ALTHOUGH THE FIRST SESSION OF COMPONENT NEGOTIATIONS ARE LIMITED TO THE NSSS SIDE OF THE PROJECT EMBASSY CONTACTS WITH U.S. SUPPLIERS OF TURBINE/GENERATOR COMPONENTS INDICATE THAT KECO HAS ALSO NARROWED THE FIELD ON THIS SIDE OF THE HOUSE AND IS ANXIOUS TO WRAP UP ALL CONTRACTS IN ORDER TO COMPLETE THE PACKAGE BY MID-FEBRUARY AT THE LATEST. HERE AGAIN, KECO IS CLAIMING THAT THE TURN-KEY ISLAND APPROACH HAS BEEN REJECTED WITH THE RESULT THAT THE ACTIVE TURBINE GENERATOR FIELD IS NOW LIMITED TO THREE SUPPLIERS--GENERAL ELECTRIC AND WESTINGHOUSE (BOTH U.S.) AND B.B.C. (SWISS). KECO HAS INVITED GE AND WESTINGHOUSE--CONFIDENTIAL

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HOUSE TURBINE GENERATOR COMPONENT APPROACH TEAMS TO NEGOTIATE DURING LATE JANUARY APPARENTLY UNDER THE ASSUMPTION THAT THE NSSS COMPONENT NEGOTIATIONS WILL HAVE BEEN COMPLETED BY THAT TIME.

4. IF WE ASSUME THAT KECO HAS ACTUALLY DECIDED TO MARCH FORWARD ON A COMPONENT APPROACH AND REJECT FROM CONSIDERATION THE STRONG FRENCH AND GERMAN TURN-KEY BIDS THE NEXT QUESTION BECOMES ONE OF KECO'S ABILITY TO CARRY THIS DECISION INTO AND SUCCESSFULLY THROUGH THE HIGHEST LEVELS OF ROK GOVERNMENT. TO EMBARK ON THE LATEST ROUND KECO APPARENTLY SOUGHT AND RECEIVED APPROVAL FROM A VICE-MINISTERIAL LEVEL ECONOMIC MINISTRIES COMMITTEE AND WE DO NOT YET KNOW IF THIS LOWER-LEVEL SANCTION TO NEGOTIATE LETTERS OF INTENT HAS BEEN APPROVED BY EPB MINISTER NAM OR THE BLUE HOUSE. IF THIS LAST SERIES OF POLITICAL HURDLES HAS NOT BEEN CLEARED WE ASSUME KECO HAS A TOUGH ROAD TO TRAVEL BEFORE A TOTAL GOVERNMENT CONSENSUS ON THE DECISION IS ACHIEVED. WE HAVE ALSO NOT RULED OUT THE POSSIBILITY THAT KECO ET.AL. ARE FOCUSING ON SELECTED COMPONENT BIDDERS WHILE AT THE SAME TIME

KEEPING THE FRAMATOME OR KWU TURN-KEY OPTIONS OPEN EITHER FOR THEIR INHERENT COMMERCIAL VALUE OR AS A BUREAUCRATIC HEDGE AGAINST A HIGHER LEVEL DECISION IN FAVOR OF A NON-U.S. SUPPLIER. IT IS OUR UNDERSTANDING THAT BECHTEL HAS ENCOURAGED KECO TO MOVE FORWARD ON THE LETTERS OF INTENT WITH THE COMPELLING LOGIC THAT TO DELAY THE PROCESS FURTHER WOULD JEOPARDIZE THE ALREADY TIGHT CONSTRUCTION SCHEDULE AND RISK INCURRING INCREASED COSTS.

5. EMBASSY ALSO UNDERSTANDS THAT OVERSEAS BECHTEL, IN ADDITION TO ITS PARTICIPATION IN THE BID EVALUATION AND NEGOTIATIONS WITH THE SUPPLIERS, PLANS TO DISCUSS WITH KECO OVER NEXT FEW WEEKS ITS PHASE II CONTRACT  
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UNDER WHICH BECHTEL WILL ASSIST THE UTILITY IN THE OVERALL CONSTRUCTION MANAGEMENT OF THE KORI THREE AND FOUR PROJECT.

6. WHILE ALL OF THESE ACTIVITIES APPEAR TO BODE WELL FOR U.S. SUPPLIERS THE EMBASSY WISHES TO ADD THE CAUTIONARY COMMENT THAT IT MAY STILL BE PREMATURE TO COUNT OUT THE FRENCH AND GERMAN BIDS. THE NEXT FEW WEEKS SHOULD SEE SOME RESOLUTION OF THIS \$1.2 BILLION PROJECT AND WE WILL ADVISE AS ADDITIONAL DETAILS BECOME AVAILABLE.  
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## Message Attributes

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